Ontario

Deposit Insurance Corporation of Ontario

Société ontarienne d'assurance-dépôts

2010 Annual Report

PROTECTION, SECURITY, STABILITY

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DICO's Publications Available on the Website

- Annual Report
- Audit Committee Handbook
- Capital Adequacy Guideline
- Commercial Lending Practices
  - Watch List Accounts
  - Credit Risk Ratings
  - Industry Codes and Concentration Risk
- Deposit Insurance Brochure and FAQ
- DICO By-law # 3
- DICO By-law # 5
  - Assessment Workbook for Management
  - Assessment Workbook for Board of Directors
  - Assessment Workbook Module: Commercial Lending
- DICO By-law # 6
  - Application Guide By-law #6, Impaired Loans
- DICO Info (newsletter)
- Director's Handbook
- Examination Manual
- Guidance Note Investments
- Guidance Note Lending
- Guidance Note Liquidity
- Guidance Note Structural (Interest Rate) Risk
- Pre-Approved Advertising Messages
- Reference Manual (Sound Business and Financial Practices)
- Sector Outlook
- Sector Releases

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Ontario

Deposit Insurance Corporation of Ontario

Société ontarienne d'assurance-dépôts

Laura Talbot
Chair of the Board
Présidente du Conseil d'administration

March 22, 2011

The Honourable Dwight Duncan
Minister of Finance
Frost Building South, 7th floor
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

Dear Minister:

I have the honour to submit to you the Annual Report of the Deposit Insurance Corporation of Ontario for the year ended December 31, 2010, pursuant to Section 256 of the *Credit Unions and Caisses Populaires Act*, 1994.

Yours truly,

Mission

To protect depositors and contribute to the stability of the Ontario Credit Union and Caisse Populaire sector.

Vision

We will contribute to the soundness, stability and success of the Ontario Credit Union / Caisse Populaire sector by being an effective solvency regulator and deposit insurer.

Values

In fulfilling our mandate and pursuing our Vision and Mission we will live by the following values:

Excellence and Professionalism

- DICO will maintain a highly skilled and diverse workforce that promotes excellence and professionalism in how it conducts its affairs.

Respect and Fairness

- Employees will treat everyone with mutual respect and fairness.
- DICO will act and support employees in a fair and consistent manner.

Integrity and Trustworthiness

- Employees will adhere to the highest ethical standards in performing their duties and responsibilities including maintaining the confidentiality of sensitive information.

Communications and Teamwork

- Employees will maintain open communications and work cooperatively amongst themselves and with partners towards the achievement of DICO's mandate.

Financial Stewardship

- DICO will act as a responsible agency that continuously strives to be efficient and effective for the benefit of all stakeholders and will manage its operations effectively and in a cost efficient manner.

DICO Staff

Giovanna Arnold•Adrienne Barber•Robin Bell•Robert Blair•Suzanne Boyer•Alla Brachman•Barry Brydges•John Burgman•Richard Dale•Gerry Daoust•Tony D'Errico•Bob Edmison•Brigitte Elie•Bill Foster•Ana Gaspar•Carmen Gheorghe•Sharon Haslett•Guy Hubert•John Hutton•Entela Josifi•Yasmin Khoja•Steve Kokaliaris•Marg Madari•Jim Maxwell•Alana McLeary•Deborah Nazareth•Niall O'Halloran•Danny Pianezza•Naile Piranaj•Andy Poprawa•Andy Rechtshaffen•Mercedes Ruano•Shivdeep Singh•Roman Sochaniwsky•James Stephenson•Suzanne Tucker•Nelson Verdecia•Grace Wen•Michael White•Richard White•Andrew Wright•Winnie Yu.

Corporate Governance

The Deposit Insurance Corporation of Ontario is an agency of the Province of Ontario established in 1977 and operates under the *Credit Unions and Caisses Populaires Act*, 1994 (the "Act"). The Act sets out DICO's objects, powers and duties as well as general terms for deposit insurance and other governing parameters. DICO functions within the legal framework established by the Act, Management Board of Cabinet Directive on Agency Establishment and Accountability and other applicable laws. The Corporation is ultimately accountable to the Legislature through the Minister of Finance for the conduct of its affairs.

The Act requires that the DICO Board of Directors "shall manage the affairs or supervise the management of the affairs of the Corporation…". The Board of Directors is composed of up to nine persons all of whom are appointed by the Lieutenant-Governor-in-Council to serve for various terms of usually up to three years.

DICO follows a robust appointments process to ensure that it recruits the best qualified people to its Board. The Board's criteria for consideration of candidates for Board membership include:

- having experience in the financial services industry;
- understanding Credit Union/Caisse Populaire principles, sector structure and modus operandi;
- board experience, director training or background in business or academia;
- understanding business concepts, operations and financial reports;
- communicating effectively, strategic thinking and appropriate decision-making and judgement.

The Corporation has established a skills profile in addition to a position description for directors. DICO has also established a gender, experience, skills and geographic representation profile for the Board as a whole, to ensure that it maintains an appropriate balance of these attributes. All potential candidates for the Board are screened and interviewed by a committee of the Board prior to being recommended for appointment to the Minister. DICO typically provides the Minister with more than one candidate. Once the Minister has made a selection, that recommendation is forwarded to the Cabinet for approval.

DICO follows best practices in corporate governance including:

- a formal director orientation process;
- continuous director development;
- Board succession planning;
- annual Board assessment and feedback;
- regular in-camera sessions; and
- annual strategic planning session.

The Board also establishes annual objectives for itself and measures its performance against those stated objectives. These include strategies for risk management and communication with stakeholders, executive management and management reporting and control.

DICO is a member and active participant in the Conference Board of Canada's Public Enterprise Governance Centre and the Risk Council, the Institute of Corporate Directors and others. These affiliations provide the Corporation with an insight into best and emerging practices for achieving excellence in governance.

DICO's Board of Directors

Laura Talbot, MBA, CMA, FCMA, ICD.D/IAS.A, *Chair of the Board*

Laura Talbot is Chair of the Deposit Insurance Corporation of Ontario Board, and President of the TalbotAllan Consulting Group. Previously she held senior executive roles with the University of Waterloo, the Federal government, the Canadian Red Cross, several utilities and US Bank One. She has substantial governance experience, currently on the Boards and Committees of the: Desjardins Sécurité financière – assurance-vie; Accounting Standards Oversight Council of the CICA; Canadian Partnership Against Cancer; Canadian Food Inspection Agency; SMAC Pension Committee; Fellows FCMA Council of Quebec; and a life member of Financial Executives International (Canada). She was previously Chair - Info Standards Development for the Ontario Accessibilities Act; Vice Chair of the CS COOP Board, Chair of the Society of Management Accountants of Canada (SMAC), Treasurer and Governance Chair for the Ontario Health Quality Council, amongst others. She holds an MBA from combined studies at the Universities of Ottawa/Manitoba; an ICD.D/IAS.A designation from the Institute of Corporate Directors following studies at the Rotman Business School; the "Mérite du CIQ" prestigious award from the 42 professional Orders of Québec; CMA and FCMA from the Québec Ordre of Certified Management Accountants. Ms. Talbot was appointed on March 20, 2002 and her term expires on April 30, 2011. She was appointed Chair of the Board effective March 22, 2009.

Raymond Boucher, B.A.

Raymond Boucher has been involved with the caisses populaires movement for over 30 years. He was General Manager of Caisse Populaire de Kapuskasing Limitée for 20 years. He was on the board of L'Alliance des caisses populaires de l'Ontario for more than 18 years as president, vice-president and member of the executive committee. Mr. Boucher has also been involved on various committees of DICO from the late 1980s to 2004. He has acquired extensive experience in governance and an understanding of the issues surrounding the credit union/caisse populaire network. He is presently active in other community organizations such as the Chair of the Board of the "Services de Counselling Hearst Kapuskasing Smooth Rock Falls Counselling Services", and Treasurer for the Army Cadet Corps of Kapuskasing. Mr. Boucher was appointed on August 12, 2009 and his term expires on August 11, 2012.

Jane Davis, B. Sc. (Hon), MM, ICD.D

Jane Davis is an experienced risk management and change management professional, with an extensive background in wealth management, brokerage, mutual funds, investment counselling and private banking. She also has sales experience in the corporate and commercial banking sectors so she understands the business management challenges. Ms. Davis has worked internationally in both wealth management and corporate banking risk management roles. She sits as an independent director on three corporate and one not-for-profit boards since obtaining her ICD designation in early 2006. Ms. Davis is also a member of five Investment Review Committees in the fund sector. She is also a Corporate Director for Growthworks and Chair of the Harvest Fund IRC. Ms. Davis was appointed on August 12, 2008 and her term expires on August 11, 2011.

Carol Lemelin, CMA

Carol Lemelin was Chief Financial Officer for the The St. Lawrence Seaway Management Corporation with overall responsibilities including Finance, Information Technology and Telecommunications, Internal Audit, and Revenue and Forecasting. Mr. Lemelin was Chair of Caisse Populaire de Cornwall Inc., and also served in various capacities on the board of Caisse Populaire de Cornwall for several years. Mr. Lemelin was appointed on June 20, 2007 and his term expires on June 23, 2013.

Colin Litton, FCA, ICD.D

Colin Litton is a Fellow of the Institute of Chartered Accountants of Ontario and a Certified Director. He is a retired partner of KPMG and his career with the firm has included service in its South African, Australian and Canadian practices. During his career with KPMG he was primarily engaged in providing audit and advisory services to banks, pension and investment funds and other entities comprising the financial services industry. He was the Chair of the Deposit-taking Institutions Auditors Advisory Committee to the Superintendent of Financial Institutions Canada until his retirement from public practice in Canada. Currently, he also serves on the boards of the Pacific & Western Group of Companies and the Canadian Scholarship Trust Foundation. Mr. Litton was appointed on August 12, 2008 and his term expires on August 11, 2011.

Paul Mullins, B.A., LL.B, *Vice-Chair*

Paul Mullins is a lawyer who has had his own practice in Windsor and Essex County since 1971. He was a commissioner for the Federal Human Rights Tribunal. He is a Director and former President of Windsor Homes Coalition which provides low income housing to needy families. For over 24 years he served as a Director and/or Chair of the Board of United Communities Credit Union (formerly Woodslee Credit Union) which has 36,000 members and assets of over $620 million. Mr. Mullins, who has served on numerous community and church groups over the years, was appointed on June 17, 2004 and his term expires on March 8, 2013.

Leslie Thompson, MFA, MBA, FCSI, CMC, ICD.D

Leslie Thompson is President of LESRISK, Debt and Risk Management Inc. She is an enterprise risk management consultant with experience as a senior executive with both financial institutions and government. Formerly, she was Vice President of Union Bank of Switzerland and The Chase Manhattan Bank. She also led the start-up operations of the Province of Ontario's treasury operations (now Ontario Financing Authority). Ms. Thompson also serves as corporate director on several boards in addition to DICO including: the Ontario Municipal Employees' Retirement System (OMERS AC); Home Capital Group Inc.; Chair, Investment Advisory Committee, City of Toronto and Trustee, City of Toronto Sinking Fund Committee. Her credentials include a Master of Business Administration, and Master of Fine Arts degrees, the Institute of Corporate Directors' Designation, the Certified Management Consultant designation and she is a Fellow of the Canadian Securities Institute. Ms. Thompson was appointed on October 12, 2005 and her term expires on November 19, 2011.

Patrick Deutscher, *Observer, Ministry of Finance*

Patrick Deutscher is Chief Economist for Ontario and Assistant Deputy Minister of the Office of Economic Policy (OEP) in the Ministry of Finance. He was appointed to that post in 2006. Prior to that, he was Director of the Macroeconomic Analysis and Policy Branch of the OEP. Pat first joined the Ontario Treasury in 1981. He worked in the Office of Economic Policy until 1987 when he left to work on fiscal and economic policy with the Federal Department of Finance, subsequently returning to the Ontario Public Service (OPS). Earlier in his career he worked with Environment Canada and Imperial Oil. Pat was raised in Saskatchewan. He holds a Ph.D. in Economics from the University of Toronto.

Sub-Committees of the Board

(as at December 31, 2010)

Audit & Finance Committee

This committee assists the Board of Directors by considering and making recommendations on audit and finance matters and other related issues including the review of financial statements and audited financial statements. The committee also oversees the external and internal audit processes, reviews the Corporation's Annual Report and makes recommendations to the Board for the approval of the Corporation's business plan and budget. The committee also reviews the Corporation's investment policy and strategy as well as various risk management strategies related to the committee's area of responsibility.

- Colin Litton, *Chair*
- Raymond Boucher
- Carol Lemelin
- Laura Talbot, *ex-officio*

Governance & Human Resources Committee

The Governance and Human Resources Committee assists the Board of Directors by considering and making recommendations on governance and human resources matters. This committee reviews the structure of board committees, its composition and skills profiles of the board members and the human resource policies which impact the corporate governance of the Corporation. It also reviews the Corporation's succession planning related to senior personnel, the Corporation's compensation policies and pension plan as well as overseeing the Corporation's stakeholder relationship and communication strategies.

- Paul Mullins, *Chair*
- Raymond Boucher
- Laura Talbot, *ex-officio*

Risk Oversight Committee

The Risk Oversight Committee assists the Board of Directors by considering and making recommendations on, and by carrying out, functions and duties in relation to deposit insurance and regulatory matters. This committee monitors risk policies and reviews and authorizes the exercise of powers of the Corporation. It also monitors the deposit insurance reserve fund and model assumptions as well as monitoring legal actions and approving financial assistance requests from insured institutions.

- Jane Davis, *Chair*
- Carol Lemelin
- Leslie Thompson
- Laura Talbot, *ex-officio*

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS 2010

	DICO Board	Audit & Finance Committee	Governance & Human Resources Committee	Risk Oversight Committee
Number of meetings held	6	6	6	4
Total # of members	7-9	3-4	3-4	2
Total scheduled attendance	49	25	22	8
Total actual attendance	49	24	21	8
% of Attendance	100%	96%	96%	100%

The number of directors on each committee has varied due to filling of vacancies during the year.

Ombudsman Report

Beryl Roberto
Ombudsman

Since the Office of the Ombudsman for the Deposit Insurance Corporation of Ontario (DICO) was established in April 2008, insured institutions have dealt with many issues related to economic conditions. The Financial Services Commission of Ontario (FSCO) and DICO have introduced measures to strengthen the Provincial financial system, similar to measures taken around the globe. During this time, DICO has seen a larger number of insured institutions requiring guidance and assistance through the Supervision process. With the implementation of previous recommendations from this Office related to the Supervision process, management at DICO has continued to update the Terms of Supervision to ensure clarification of expectations, including roles and responsibilities as well as education of Board and management of insured institutions under Supervision. In the past year, this Office has not received complaints from insured institutions under Supervision.

The Ombudsman's mandate is to review complaints that have not been resolved at the operational level and to reach conclusions based on an independent review of the facts. Complaints must relate to regulatory issues between insured institutions and DICO or to disputes between depositors or borrowers related to institutions that are being liquidated. In the course of investigating complaints, the Ombudsman may make non-binding recommendations to DICO where deemed appropriate. The Ombudsman reports directly to the Board and is independent from operational programs.

DICO's website includes information regarding the mandate of the Ombudsman, the complaint resolution process including complaint forms, contact information and circumstances under which the Ombudsman has no jurisdiction, such as matters involving: a Tribunal hearing, an order for administration or liquidation and litigation.

During 2010, two enquiries were received and acted upon. There were also five complaints which were either not directly related to the activities of DICO or were outside the jurisdiction of this Office.

Full co-operation and support was received from the Board, management and staff at DICO throughout the year.

Respectfully submitted,

Beryl Roberto, *Ombudsman*
Tel: 416-325-9446
Email: ombudsman@dico.com

Message from the Chair: *Rebuilding the DIRF*

"During the year, DICO implemented new prudential oversight processes aimed at improving the regulatory regime for Ontario credit unions and caisses populaires."

Laura Talbot
Chair of the Board of Directors

On behalf of the Board of Directors, I am pleased to present our annual report to the government and our other stakeholders. The Deposit Insurance Corporation of Ontario, an operational enterprise agency of the Ontario government, exists to protect depositors from loss of deposit funds placed with Ontario's credit unions and caisses populaires and to provide prudential oversight and solvency regulation for the sector. I am pleased to report that DICO has met our primary mandate during the past year. No depositor has ever lost any deposit funds placed with an Ontario credit union or caisse populaire.

The Year in Review

The steady economic recovery over the past year has continued to enhance confidence in Ontario's credit unions and caisses populaires. During 2010 the sector recorded strong deposit and loan growth as well as a substantial recovery in profitability. DICO continues to play an important role in promoting confidence in and the stability of credit unions and caisses populaires by ensuring adherence to high standards of governance, capital levels and risk management.

The level of the Deposit Insurance Reserve Fund (DIRF), after sustaining significant insurance losses in 2008 and 2009, recovered somewhat in 2010 to 40 basis points of insured deposits (44 basis points on an unconsolidated basis) – still well below our target range of between 56 and 68 basis points. DICO has put in place a strategy to rebuild the DIRF through a combination of recoveries on past insurance losses, increased insurance premiums and additional preventive measures to reduce the likelihood of future losses.

During the year, DICO implemented new prudential oversight processes aimed at improving the regulatory regime for Ontario credit unions and caisses populaires. Based on feedback from all stakeholders, it is clear that DICO's transition to prudential regulator responsibilities has gone very well. We remain confident that implementation of these new policies, processes and service standards will strengthen the protection of depositors while permitting credit unions and caisses populaires to take advantage of their expanded business powers to better serve members.

Despite the turbulence in the financial services sector over the past two years, Ontario's credit unions and caisses populaires have consistently maintained a high level of trust from their members. This is evidenced by the asset and membership growth in the sector. Helping protect the reputation of the sector is one of DICO's key objectives.

As the financial services marketplace evolves, institutions will realize that their business models will need to change and adapt in order to stay competitive and relevant to their clients. In order to remain viable and sustainable, Ontario

credit unions and caisses populaires will need to embrace these marketplace changes through the development and implementation of disciplined and rigorous risk based strategic and operational plans. Through its oversight processes, DICO will be monitoring their progress.

Governance and Oversight

The Board of Directors strives to be a model board for all of its insured institutions. The Board's activities focus on important aspects of governance and oversight such as strategy, succession planning, risk management and reporting. Through a strong Committee system, the Board also focuses on important issues related to the transition to International Financial Reporting Standards (IFRS) for both, the Agency and insured institutions, as well as reviewing the state of the deposit insurance reserve fund and the premium system. The Board of Directors continues to follow best practices in governance as set out in current literature on the subject including the Conference Board of Canada's and the Institute of Corporate Directors' publications. Details of our governance practices can be found in this annual report.

During 2010, our outreach programs to key stakeholders have included presentations to boards of individual institutions and industry conferences, webinars on specific topics of interest and the publication of guides and other helpful materials. The Board remains committed to ensuring that all key stakeholders are well informed about their responsibilities and the regulatory activities of DICO.

Looking Forward

For 2011, DICO has identified a number of key priorities:

- Implementing revised standards of sound business and financial practices;
- Enhancing our proactive risk assessment and oversight capabilities;
- Requiring the implementation of enterprise risk management systems in insured institutions;
- Publishing guidance with respect to emerging risks;
- Re-building a sustainable DIRF through recovering on past claims and premium adjustments;
- Reviewing and making recommendations on the differential premium system;
- Continue implementing our strategic alliance agreements with our various stakeholders.

We believe that our long-term strategic direction properly responds to our mandate to enhance depositor confidence with due regard to the sector's goal to be more competitive and responsive to its members' needs. By exercising continued vigilance through our risk assessment and management programs, by building a solid insurance fund and encouraging a strong financial base at insured institutions, DICO believes that we will continue to protect depositors effectively, minimize the cost of depositor protection, and contribute to the stability and reputation of Ontario's credit unions and caisses populaires. We look forward to working with our various stakeholders to achieve these goals.

Board Transition

I would like to take this opportunity to express my appreciation to all our Board members for their dedication and professionalism in working together in the interests of all stakeholders. All of our directors bring a high level of skill, expertise and experience to DICO's mandate and deliberations.

During the past year, Robert (Bob) Hammond of Ottawa and Debra Curley of Toronto retired from the Board after having served for five and two years respectively. On behalf of the Board and staff I would like to thank both Bob and Debra for their valuable contributions and dedication to DICO. In early 2011 we welcomed Don Dalicandro to the Board. He brings a significant amount of enthusiasm and experience to our deliberations; we look forward to his contributions.

My term as Chair and a director of DICO will finish at the end of April 2011; I would like to express my sincere appreciation to all of the directors of DICO, the Agency's CEO and management and staff, as well as the many stakeholders that I have worked with over the past nine years, for their support and guidance.

On behalf of the Board of Directors,

Laura Talbot, MBA, CMA, FCMA, ICD.D/IAS.A
Chair of the Board

Message from the CEO: Meeting Challenges

"While the prolonged low interest rate environment and increased loan delinquency continue to pose challenges to maintaining healthy financial margins, Ontario credit unions and caisses populaires have adjusted their operations by better managing their balance sheets and reducing operating costs in order to improve overall profitability."

Andrew (Andy) Poprawa
President & CEO

The Ontario Legislature created the Deposit Insurance Corporation of Ontario in 1977 to ensure public confidence in Ontario credit unions and caisses populaires. DICO insures deposits at the province's 167 credit unions and caisses populaires and it promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. Since 2009 DICO's mandate also includes responsibility for prudential oversight and solvency regulation. DICO receives no tax dollars as insured financial institutions fund its insurance fund and operations.

As the economic and business environment improved during 2010, the financial and operational stresses on insured institutions and on DICO abated somewhat. While the prolonged low interest rate environment and increased loan delinquency continue to pose challenges to maintaining healthy financial margins, Ontario credit unions and caisses populaires have adjusted their operations by better managing their balance sheets and reducing operating costs in order to improve overall profitability. This resulted in a significant increase in the sector's aggregate return on average assets to 48 basis points in 2010 compared to 25 basis points in 2009. At the same time, overall capital levels remained at a historically high level of 7.5% on a leverage basis providing an important stabilizing element for insured institutions. Sector liquidity has remained within an acceptable range at 14%.

2010 Consolidation and Failures

During 2010 the rate of consolidation within the sector continued at a moderate rate. Of the 19 institutions that ceased operations during the year 14 merged with another institution, 2 voluntarily wound up and 3 were placed into liquidation. Each of these situations was unique and some required creative solutions to ensure the safety of deposits. In all cases, DICO ensured that all depositors were protected from any loss of their deposit funds and public confidence in the sector was maintained.

During 2010, DICO recorded $1.5 million in insurance losses relating to the liquidation of four institutions. The provisions for losses related to the expected shortfall on the realization of assets of these institutions after satisfying all creditor claims. There were no significant recoveries on past losses realized in 2010 as the various disputes with the fidelity insurer of several failed institutions remain

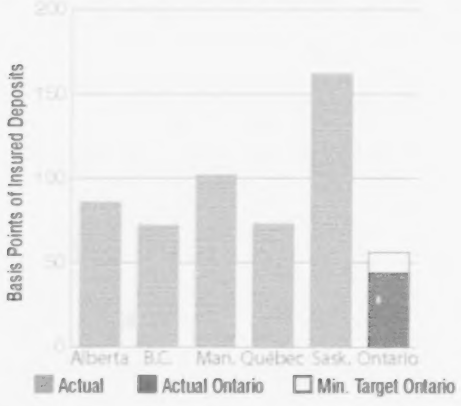
unresolved. DICO plans to continue to pursue these and other claims to maximize our recoveries as required by statute.

Deposit Insurance Reserve Fund and Premiums

Under the Act DICO is required to build a Deposit Insurance Reserve Fund (DIRF) to protect depositors. As a result of the losses incurred in 2008 and 2009, the progress DICO was making toward reaching our DIRF target to protect member deposits experienced a serious set-back. Despite positive results during the year, the DIRF stood at 44 basis points (on an unconsolidated basis) of insured deposits - well short of our target range of between 56 and 68 basis points based upon our actuarial model. To address this shortfall, DICO, after exploring various options to rebuild the DIRF, made a recommendation to the government to implement an overall 15% increase in premiums for 2011. This modest increase was based on the assumption that a recovery on past losses would be realized during 2011 to expedite the fund rebuilding process. Failure to achieve significant recoveries may require a further increase in premiums in 2012 and beyond.

DEPOSIT INSURANCE RESERVE FUND

Comparison with Other Provincial Jurisdictions



DICO'S 2010 FINANCIAL SCORECARD ($MILLIONS)

	Unconsolidated		Consolidated
	DICO Target	DICO Actual	Actual
Insurance Fund	$85.5	$94.8	$85.9
Gross Insurance Provisions	$10.0	$ 1.5	$ 1.5
Recovery of Prior Years Losses	0	0	$ -3.5
Total Gross Operating Expenses	$ 8.2	$ 7.5	$18.5
Total Net Operating Expenses	$ 7.7	$ 7.2	$18.4
Return on Investments	0.70%	0.59%	0.59%

Our Strategies

Proactive and Balanced Risk-Based Regulation and Risk Management

As the prudential regulator as well as the deposit insurer, the Corporation has the authority to respond to imprudent institutional and systemic risks and to ensure that prompt corrective action is taken as necessary. During the year DICO took appropriate measures to monitor and address any non-compliance with the Act and regulations. As a result, several supervisory orders were issued during the year to promptly address non-compliance situations.

In 2010, DICO circulated for comment revised by-laws #5 and #6 dealing with the requirements for loan allowances and standards of sound business and financial practices respectively. These new by-laws will enhance the risk management requirements of insured institutions. In particular, the requirement for an effective internal audit program and an Enterprise Risk Management framework will further improve the ability of insured institutions to manage their risks.

Sound Corporate Governance

The Corporation prides itself on ensuring that we operate within the highest standards of competence, professionalism and integrity. To this end, our governance and management processes ensure that DICO is accountable, transparent and

fair in all of its dealings with its insured institutions as well as the public.

Effective Public and Stakeholder Awareness

Providing clear, concise information regarding deposit insurance coverage and other regulatory matters are key elements of DICO's ongoing efforts to ensure sustained public confidence in credit unions and caisses populaires is maintained. Our point of sale brochures and our comprehensive website are the primary tools to provide access to that information. During 2010, we answered in excess of 1,000 calls from the public on our deposit insurance info-line. For further information on our programs and to obtain further information about us, we invite stakeholders and readers to visit our website **www.dico.com.**

Strong Partnerships

To ensure that we work together effectively with all stakeholders, DICO maintains memoranda of understanding with the Minister of Finance, the Superintendent of the Financial Services Commission of Ontario (FSCO), Central 1 Credit Union, La Fédération des caisses populaires de l'Ontario, L'Alliance des caisses populaires de l'Ontario, FINTRAC and the Superintendent of the Financial Institutions Commission of British Columbia. In addition, we have several advisory committees comprised of key senior executives within the regulated sector, as well as Ministry of Finance and FSCO officials.

In the spirit of the co-operative movement we are also pleased to assist other jurisdictions around the world in developing sound regulatory and depositor protection regimes for co-operative financial institutions. We continue to chair the International Credit Union Regulators Network (ICURN) – a network of global credit union and caisse populaire regulators formed for the purpose of sharing information and experiences.

Looking Ahead

Ontario credit unions and caisses populaires will continue to strengthen and contribute to the financial and social fabric of Ontario. We also expect that the sector will follow its past trend of consolidation and restructuring in order to improve efficiencies, profitability and service. The Board and staff of DICO are committed to providing protection, security and stability to the Ontario credit union and caisse populaire sector for the benefit of all its members and the Ontario economy. We look forward to the opportunity in 2011 and beyond of continuing to demonstrate our commitment.

In closing, I would like to express my appreciation to our employees, who are an extremely dedicated group of professionals and the major source of DICO's corporate strength. I appreciate, as well, the advice and support that I continue to receive from DICO's Board of Directors. In particular, I am grateful to our Board Chair, Laura Talbot, for her ongoing wise counsel, guidance and support.

Andrew (Andy) Poprawa, CA, C.Dir.
President & CEO

DICO's Business Model 2011

DICO has developed a business model to encapsulate the way in which the Corporation conducts its business in light of its legislation and overall environment. This business model reflects DICO's position as an integral part of Ontario's financial safety net, with its own legislated mandate. DICO's Board of Directors and management activities are considered under the umbrella category of governance. This also reflects the importance of strategic management and enterprise risk management. The importance of accountability is also highlighted in the business model, as are the major functions of the Corporation in fulfilling its mandate.

Ontario's Financial Institutions - Regulatory / Supervisory System
Ministry of Finance, Financial Services Commission of Ontario, Deposit Insurance Corporation of Ontario

Legislative Environment

Credit Unions and Caisses Populaires Act
DICO's Business Objectives
For the Benefit of Depositors:
- Provide Deposit Insurance
- Promote Standards of Sound Business and Financial Practices
- Prudential Standards and Solvency Regulation

Other Legislation, Statutory Requirements and Guidelines, including
- Management Board of Cabinet Directives
- Other Acts, i.e. *French Language Services Act, Employment Standards Act*, etc.

Governance

Board of Directors
Strategic and Policy Direction

Risk Oversight Committee | Governance & Human Resources Committee | Audit and Finance Committee

Accountability
- Corporate Plan
- Annual Report
- Stakeholder Meetings
- Stakeholder Advisory Committee
- External Auditor Advisory Committee

Strategic Management
DICO's Business Strategies:
- Risk Assessment / Management
- Minimizing Insurance Costs
- Protecting Depositors
- Collaborative Relationships
- Efficiency & Effectiveness

Enterprise Risk Management
DICO's Key Risk Categories:
- Strategic - incl. Reputational
- Insurance - incl. Systemic
- Regulatory
- Operational
- Financial
- Compliance

Major Functions

- Policy Development
- By-law Review & Development
- Advice on Legislation
- Standards of Sound Business & Financial Practices
- Depositor Communication & Awareness
- Internal Communications
- Liaison with Stakeholders
- International Assistance
- Solvency Regulation

- Risk Assessment
- Insurance
- Member Compliance with Legislation & By-laws
- Intervention / Failure Resolution
- Payout Management
- Claims & Recoveries Management
- Payment Obligations
- Certificate of Insured Deposits
- Differential Premium System

- Litigation Management
- Asset & Liability Management
- Finance & Treasury
- Human Resources Management
- Legal & Corporate
- Information Systems Technology & Management
- Internal Audit

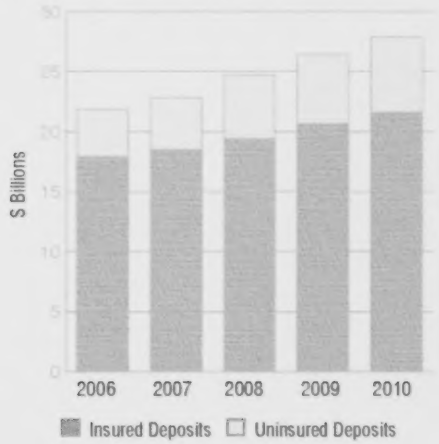
Control Environment

Management's Discussion and Analysis

Sector Overview

The Deposit Insurance Corporation of Ontario (DICO) provides deposit protection for all eligible deposits held at Ontario credit unions and caisses populaires. Deposit insurance is part of a comprehensive protection program in all Ontario credit unions and caisses populaires which is established by provincial legislation. DICO insures most deposits up to $100,000 subject to the eligibility criteria and maximum coverage limits. Deposits held in registered savings plans are fully insured with no maximum limit. For more details regarding the basic coverage that is available for all eligible deposits please visit our web site **www.dico.com**.

AGGREGATE INSURED DEPOSITS AND TOTAL DEPOSITS

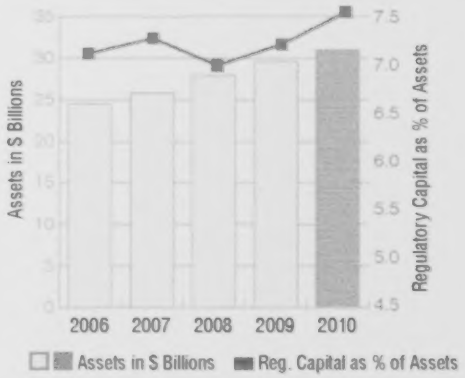


DICO fulfills its mandate in a complex and dynamic environment. The credit union and caisse populaire sector is well capitalized at an average of 7.5% of assets. It is also relatively stable although a number of competitive, economic and other pressures are impacting some individual insured institutions' performance.

The economy, the performance of insured institutions and legislative and regulatory developments are continually monitored.

During 2010, the Ontario economy has seen modest improvement, with gains in exports, and higher levels of employment. However, the manufacturing and forestry sectors in particular, continue to face significant challenges.

THE ONTARIO SECTOR ASSETS AND REGULATORY CAPITAL



In contrast, the housing sector has improved and continues to benefit from the low interest rate environment. House prices and sales remain healthy although household debt is increasing. While the economy has seen some improvement in 2010, Ontario's recovery and economic growth is expected to remain slow for some time along with continued weakness in the U.S.

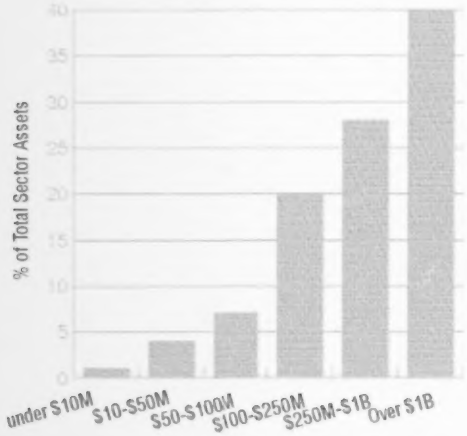
DICO'S SECTOR PROFILE AT A GLANCE

	2010	2009
Number of Institutions	**167**	186
Total Assets (billions)	**$31.0**	$29.6
Total Deposits (billions)	**$27.9**	$26.4
Insured Deposits (billions)	**$21.5**	$20.6
Insured Deposits as a % of Total Deposits	**77%**	78%
Regulatory Capital Ratio (Leverage Basis)	**7.52%**	7.22%
Asset Quality (loan costs as a % of Average Assets)	**0.15%**	0.21%
Profitability (net income as a % of Average Assets)	**0.48%**	0.25%

Overview of Ontario Credit Unions and Caisses Populaires

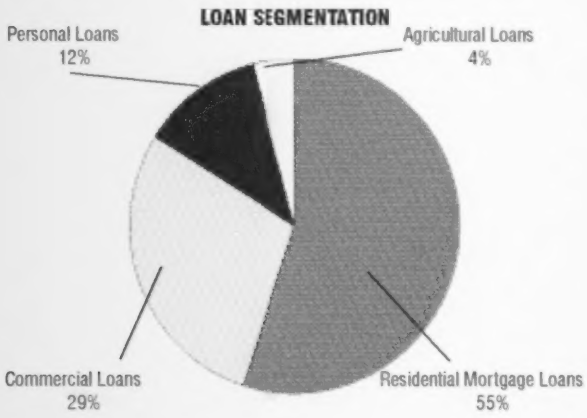
During 2010 the long term trend of consolidation continued. The number of active insured institutions declined by 19 to a total of 167, as a result of mergers or wind-ups. Today, about 50% of the assets of the Ontario movement are held by the largest 10 insured institutions while 5% of assets are held by the smallest 78 institutions. This distribution of assets remains an interesting and challenging dynamic within the industry.

SECTOR PROFILE BY ASSET SIZE



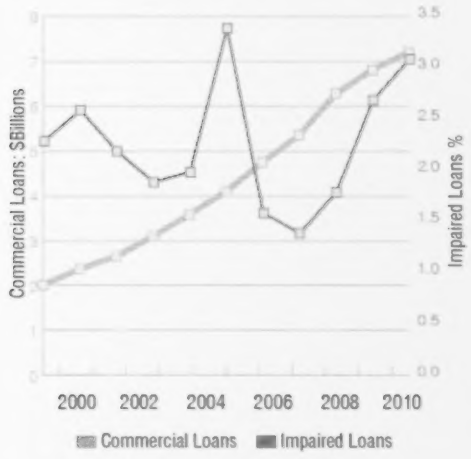
Growth in aggregate on-balance sheet assets and deposits declined slightly in 2010 with a year over year increase of 5% to $31 billion. Commercial loan growth remained fairly strong at 6% (compared to 8% in 2009 and 13% in 2008). Aggregate residential mortgage loans also grew by 6% (compared to 6% in 2009) while personal loans declined by a further 3%.

LOAN SEGMENTATION



Throughout 2010 the sector's aggregate credit risk, as measured by aggregate loan costs and delinquency, declined marginally as market and economic conditions improved. Notwithstanding this modest improvement, the coverage ratio (loan allowances as a percentage of impaired loans) has declined to 46 per cent compared to 51 per cent in 2009. Gross delinquency greater than 30 days declined to 141 basis points of total loans from 152 basis points in 2009 although this remains well above historical levels. Loan costs also declined to 15 basis points compared to 21 basis points in 2009. In contrast, delinquency levels and impairments in commercial lending are increasing and remain a concern. During 2010, commercial loan impairment increased to 297 basis points compared to 257 in 2009.

COMMERCIAL LOANS



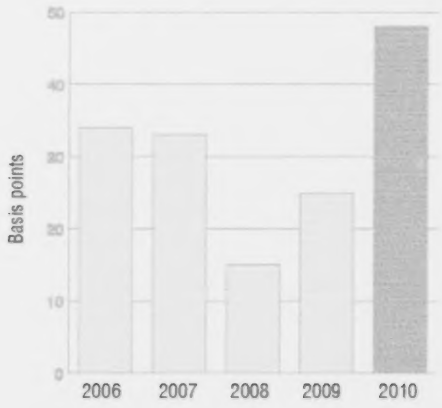
At the end of 2010 liquidity increased marginally to 14.32% compared to 14.20% in 2009. Aggregate capital increased to 7.5% of assets of which more than 4% was retained earnings. All but three insured institutions met the prescribed statutory minimum capital requirements.

Profitability during 2010 improved significantly to 48 basis points compared to 25 basis points in 2009 and 15 basis points in 2008. Despite this improvement, a number of institutions experienced operating losses during 2010. These

institutions are being closely monitored to ensure that either the underlying reasons for the losses are being rectified or that sufficient capital is being injected by members to support their continued viability.

EARNINGS IN THE ONTARIO SECTOR

Based on data as of February 23, 2011



The well-publicised difficulties with asset backed commercial paper (ABCP) and other complex financial instruments continue to affect certain credit markets. However, market conditions have improved modestly in 2010 and credit unions and caisses populaires which hold these instruments have seen slight increases in valuations although they continue to experience an impact on capital from previous write-downs.

During 2010, adherence to the Standards of Sound Business and Financial Practices declined as measured by the results of the Examination program. At the end of the year 84% of insured institutions (based on assets), were in full compliance with all standards compared to 93% in 2009. Most of this decline was due to weaknesses in credit risk management.

DICO's Differential Premium System (DPS) is based on the aggregate risk profiles of institutions using quantitative and qualitative factors for five key components - capital, asset quality, adherence to standards of sound business and financial practices, earnings, and interest rate risk. For 2010, the majority of premiums were based on 2009 results which saw a further decline resulting in an increase in the average premium rate. The following table indicates a slight improvement in aggregate DPS ratings at the end of 2010 although several institutions have migrated to higher risk ratings and premium tiers.

In 2010, DICO's board recommended and the Government approved an average increase in premium rates of 15% for financial years beginning on or after January 1, 2011.

PREMIUM RATE ($ PER $1,000)	RISK LEVEL	2010	2009	2008	2007	2006
0.90	Low	47%	26%	32%	42%	34%
1.00	Low +	34%	53%	56%	46%	53%
1.15	Moderate	10%	16%	9%	10%	6%
1.40	High	8%	3%	1%	2%	7%
2.10	High +	1%	2%	2%	0%	0%

In the context of a continuing low interest rate and competitive market environment, the Ontario credit union and caisse populaire sector has further consolidated and, at the same time, grown to expand services to communities across the province. While profitability in some insured institutions continues to be a concern for their future viability, the sector remains relatively stable and plays an important and increasing role in the financial and economic landscape in Ontario.

Legislative and Regulatory Developments

Amendments to the *Credit Unions and Caisses Populaires Act* and revised Regulation came into force on October 1, 2009. This new regulatory framework provides credit unions and caisses populaires with broader powers to compete in the financial services marketplace. DICO's role, responsibilities and powers have been expanded to include solvency regulation with broader scope to protect depositors and members and to contribute to the stability of the sector.

During 2010, DICO received 15 applications relating to asset purchase and sales and three applications relating to minor variations and exemptions under the Act.

DICO also issued five Supervision orders and one Administration order.

Information regarding DICO's regulatory powers and activities, including criteria, guides and service standards is available on its web site **www.dico.com**.

2010 Financial Performance Review

This section provides a review of the Corporation's financial performance for the year ended December 31, 2010 that focuses on the Consolidated Statement of Operations and Changes in the Deposit Insurance Reserve Fund (DIRF). This Management Discussion and Analysis (MD&A) should be read in conjunction with the Corporation's Consolidated Financial Statements and related notes for the year ended December 31, 2010 which begin on page 32.

The 2010 consolidated financial statements combined DICO's results and those of 20 institutions in liquidation (15 in 2009) that met the criteria of variable interest entities ("VIEs") under the Canadian Institute of Chartered Accountants' (CICA) Accounting Guideline 15. As liquidator of the estates of institutions in liquidation, it requires DICO to consolidate if claims by DICO against these estates represent more than 50% of the total liabilities of the institutions in liquidation. Details of this accounting policy are provided in Note 1(B) of the Notes to the Consolidated Financial Statements.

Highlights:

- Premium income increased $1.2 million or 6% in 2010 to $21.2 million, mainly due to the increase in aggregate insured deposits in the sector.
- Consolidated other income increased by $813 thousand or 40%, due primarily to revenues of an increased number of institutions in liquidation (VIEs) during the year. A total of 20 VIEs were consolidated compared with 15 last year.
- Total consolidated operating expenses increased by $7 million or 62% in 2010. Approximately 94% of this increase was attributable to the operations of institutions in liquidation (VIEs) which included a significant write-off on the disposal of assets related to a subsidiary of a credit union in liquidation.
- The consolidated provision for insurance losses was reduced by a recovery of $3.5 million to a net recovery of $1.96 million compared to the consolidated loss provisions of $27.9 million last year. There was no increase in the general loss provision, compared with a $2.5 million increase a year ago.
- Before the consolidation of VIEs, the DIRF increased by $13 million in 2010 to reach $94.8 million. The fund represents 44 basis points of insured deposits, an improvement of 4 basis points when compared with last year. The increase was largely attributed to lower than expected new loss provisions and controlled expense growth.

Impact of consolidation of variable interest entities

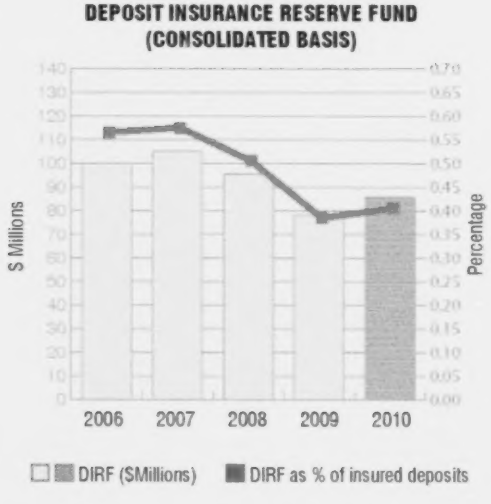
The impact of the VIEs consolidation on the Corporation's balance sheet as at December 31, 2010 (after elimination of inter-company transactions) is a net increase in total assets of $12 million and an increase in liabilities of $21 million. The statement of operations reflects an increase in other income of $2.3 million and an increase in net operating expenses of $10.8 million. The net impact on DICO's DIRF is a reduction of $8.9 million.

Deposit Insurance Reserve Fund (DIRF)

DICO is responsible for the safety of funds placed on deposit with Ontario credit unions and caisses populaires. One of the primary mechanisms to ensure that deposit funds are well protected is the maintenance of a deposit insurance reserve fund ("fund"). In order to ensure that the fund is sufficient to cover its insurance risks, DICO evaluates the adequacy of the fund and its liquidity requirements on a regular basis. DICO, with the assistance of an actuarial consulting firm and industry consultation, has developed a sophisticated model to determine the appropriate range of the fund size based on a number of principles, assumptions and other factors which include the risk profile of insured institutions, economic conditions, premium revenue, interest rates, loss history, risk migration and sector growth. The assumptions and other factors used in the model are updated regularly to account for changes in DICO's environment.

In order to gauge the capacity of the fund, DICO uses a confidence level of 95% over a 20 year cycle. This assumes there is a 95% degree of confidence that the fund will be able to cover potential projected model losses for the next 20 year cycle without going into a deficit position. Under these parameters, DICO has established a fund target range of 56 basis points (bp) to 68bp of insured deposits. In the event that the fund is under the minimum target range (56bp), DICO may need to recommend an increase in premium rates or special assessment.

For the year ended December 31, 2010 ($ thousands unless indicated)	Actual 2010	Actual 2009	Actual 2008	Change from 2009		Minimum Target 2010
	$	$	$	$	%	$
DIRF-***Consolidated***	**85,869**	78,285	95,638	7,584	9.7%	
% of Sector Insured Deposits	**0.40%**	0.38%	0.50%	0.02%	4.6%	
DIRF - ***before VIEs consolidation***	**94,803**	81,750	97,015	13,053	16.0%	85,526
% of Sector Insured Deposits	**0.44%**	0.40%	0.50%	0.04%	10.6%	0.40%
Estimated Sector Insured Deposits ($billions)	**21.5**	20.6	19.3	1.0	4.9%	21.5



The DIRF as at December 31, 2010 on a consolidated basis was $85.9 million, up $7.6 million or 9.7% from $78.3 million a year ago. It represented 40 basis points of the sector's insured deposits, 2 basis points higher than last year. The DIRF was primarily impacted by the significant current year charges of operating expenses of 20 institutions in liquidation (VIEs). In 2010, total income amounted to $24.0 million, against net operating expenses of $18.4 million and a net recovery for insurance losses of $2 million, resulting in a net consolidated gain for the year of $7.6 million.

Premium income

For the year ended December 31, 2010 ($ thousands unless indicated)	Actual 2010	Actual 2009	Actual 2008	Change from 2009		Target 2010
	$	$	$	$	%	$
Premium Income	**21,196**	19,947	18,229	1,249	6.3%	20,900
Average premium rate per thousand $ of insured deposits	**$1.03**	$1.02	$0.98	0.01	1%	$1.02

Premium income increased $1.2 million or 6% in 2010 to $21.2 million. The increase was primarily driven by the growth in insured deposits (5%) and a small increase resulting from the change in the risk profiles of some insured institutions. The average premium rate charged in 2010 was $1.03 per thousand of insured deposits compared with $1.02 in 2009.

Differential premium rates in effect for 2010 remained unchanged from 2009. Premiums are based on the total amount of insured deposits held by insured institutions as of their fiscal year ends, calculated in accordance with the Differential Premium Risk Classification System as defined by the Regulation.

The premium rate structure is as follows:

Premium Class	1	2	3	4	5
Risk Rating	Low	Low +	Medium	High	High +
Premium Rate	$0.9	$1.00	$1.15	$1.40	$2.10

Other Income

For the year ended December 31, 2010 ($ thousands unless indicated)	Actual 2010	Actual 2009	Actual 2008	Change from 2009		Target 2010
	$	$	$	$	%	$
Other income - DICO	**516**	755	3,976	(239)	-31.7%	597
Other income - VIEs	**2,336**	1,284	951	1,052	81.9%	
Total Other income - Consolidated	**2,852**	2,039	4,927	813	39.9%	597

Other income, which is comprised mainly of interest income, was $2.8 million, an increase of 0.8 million from last year. DICO's interest income decreased by $239 thousand due to a smaller investment portfolio in 2010, $68.3 million at year end compared to $85.9 million same time last year. The Ontario Financing Authority (OFA) manages the Corporation's investment portfolio under an investment management agreement. The portfolio is invested 100% in money market securities and the average yield for the year was 0.59% (0.68% in 2009). VIE's total other income, comprised mainly of interest on loans, totaled $2.2 million. The increase of $1.1 million was mainly due to the addition of 5 more institutions in liquidation when compared with last year.

Provision for Deposit Insurance Losses

For the year ended December 31, 2010 ($ thousands unless indicated)	Actual 2010	Actual 2009	Actual 2008	Change from 2009		Target 2010
	$	$	$	$	%	$
Provision for insurance losses	1,550	29,322	27,825	(27,816)	-94.9%	10,000
Less: Recovery / Reversal of previous losses	(3,509)	(1,377)	(3,430)	(2,088)	-151.6%	-
Net (Recovery) / Provision for insurance losses	(1,959)	27,945	24,395	(29,904)	-107.0%	10,000

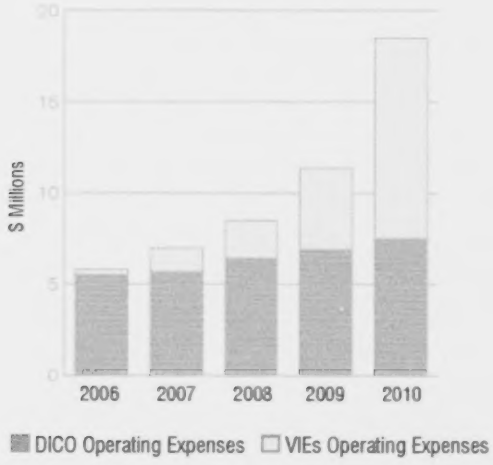
In 2010, DICO recorded a net recovery of $1.9 million for insurance losses. It consisted of $1.6 million of specific new provisions to 4 institutions in liquidation and was offset mainly by the reversal of consolidated VIEs' previous net losses of $3.5 million. There was no change in DICO's general accrual for insurance losses for the year ended December 31, 2010.

The specific increase in loss provisions of $1.6 million represented management's best estimate of the cost for resolving the liquidation of four institutions during the year.

Operating expenses

For the year ended December 31, 2010 ($ thousands unless indicated)	Actual 2010	Actual 2009	Actual 2008	Change from 2009		Target 2010
	$	$	$	$	%	$
Gross operating expenses- DICO	7,545	7,045	6,359	500	7.1%	8,219
Gross operating expenses- VIEs	11,004	4,453	2,131	6,551	147.1%	
Gross operating expenses- Consolidated	18,549	11,498	8,490	7,051	61.3%	8,219

OPERATING EXPENSES



Gross consolidated operating expenses, including salaries and benefits, totaled $18.5 million for the year 2010, an increase of $7.0 million compared to last year's consolidated expenses of $11.5 million. The increase was primarily due to the increased expenses of VIEs totaling $6.6 million, reflecting the increased number of institutions in liquidation consolidated during the year (total of 20 in 2010 vs 15 in 2009) and also included a significant write-off on the disposal of assets related to a subsidiary of a credit union in liquidation. DICO's gross operating expenses before VIEs consolidation were $7.5 million, $0.7 million better than target and $0.5 million higher than actual last year due to increased activities in 2010.

Summary Review of Consolidated Statement of Financial Position

Consolidated total assets increased by $0.9 million, or 0.8% from 2009 to $120.0 million at December 31, 2010. The net growth in total assets was mainly due to the impact of consolidation of VIEs.The incremental effects included the increase of loans (net of allowances) $7.4 million; cash and equivalents $4.1 million and other assets of $2.7 million. Deposit insurance advances recoverable also increased by $4 million. The total increase was offset by the drawdown of DICO's investments of $17.5 million largely for the purpose of deposit insurance payouts to depositors during 2010.

Consolidated total liabilities and equity increased by $0.9 million. Total liabilities decreased by $6.7 million, or 16%, from last year to $34.2 million. Member shares and deposits of VIEs increased $7.3 million and were offset by a decrease of $15 million in DICO's accrual for deposit insurance losses. The consolidated DIRF increased by $7.6 million or 9.7% from last year.

Investments

Investments decreased $17.5 million to $68.4 million in 2010, mostly due to the large volume of deposit insurance advances made to troubled institutions in liquidation during the year. DICO's investment policy is to invest in shorter term, low-risk securities in order to meet its possible liquidity needs in the event of an institutional failure. Further details on the composition of investments are provided in Note 3 of the consolidated financial statements. The Corporation's investment portfolio at December 31, 2010 showed a weighted average effective yield of 1.07%, compared to 0.28% at the end of 2009.

All investments are highly liquid, fixed rate contracts and are R1 Mid or better on the DBRS scale. Investments must comply with the requirements of both the *Income Tax Act* and Regulation 237/09 of the *Credit Unions and Caisses Populaires Act, 1994*.

Loans

When insured institutions are placed in liquidation and DICO is appointed as liquidator, DICO has the obligation to realize on the assets of the estate of each institution. The major component of the assets of these institutions is loans. As of December 31, 2010, a total of 20 liquidated institutions were consolidated, with loans (net of allowances of $42.7 million) amounting to $25.6 million, $7.4 million more than last year. DICO accepted the aggregate allowance for loans as established by the management of the institutions in liquidation. The general process for determining the loan allowances by the institution's management is through identification and determination of losses related to specific loan portfolios.

Accrual for deposit insurance losses

The accrual for deposit insurance losses includes both provisions for specific losses and a general accrual for losses. After consolidating the VIEs in liquidation, the accrued deposit insurance losses as of December 31, 2010 were $13.8 million. This amount includes a specific accrued provision of $8.8 million for all institutions in liquidation and a general accrual for losses of $5.0 million, which reflects management's best estimate of losses on insured deposits arising from the inherent risk in insured institutions.

Transition to International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standard Board (AcSB) confirmed that IFRS will replace Canadian GAAP for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. The Corporation's first annual IFRS financial statements will be for the year ending December 31, 2011 and will include the comparative period for 2010.

In order to meet the requirement to transition to IFRS, the Corporation engaged KPMG to assist in identifying appropriate accounting treatments and developed a detailed transition plan which includes the formation of a project steering committee, employee training, communications and initiating

detailed analysis on specific accounting topics that are most relevant to DICO. The process involves diagnostic review and assessment to identify potential differences between IFRS and DICO's current accounting policies, confirmation of identified accounting differences and implementation requirements and final quantification of key impacts to DICO's opening balance sheet. The Audit & Finance Committee of the Board has been receiving ongoing reports of the progress of the conversion project.

The Corporation has completed a comprehensive review of the IFRS requirements relative to DICO's business, identified the differences and confirmed the selected policy options permitted under IFRS. Detailed accounting assessments included deposit insurance, consolidation of VIEs, provisions for insurance losses, financial instruments, revenue recognition, short and long-term employee benefits, leases, accounting for income tax, property, plant and equipment, impairments of non-financial assets, related party disclosures and financial statement presentation and disclosure. The following table highlights the major areas which management considers the most relevant.

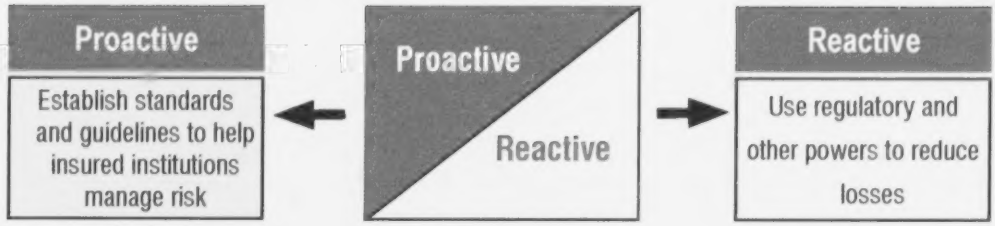
Accounting policy	Key changes in accounting treatment	Potential key impacts
Employee benefits	IFRS 1 generally requires that a first time adopter apply IFRS accounting treatments retroactively, (i.e. since the inception of the benefit plan) and requires a restatement of prior period accounting results in order to bring the existing CICA 3461 balances in line with the requirements under IFRS. An optional exemption "fresh start" is provided that allows any unamortized gains and losses to be immediately recognized at transition date (January 1, 2010) as a one-time adjustment to retained earnings (DIRF). The Corporation has elected to adopt the "fresh start" exemption allowed under IFRS 1. Under IFRS, actuarial gains and losses related to defined benefit obligations (a non-pension post retirement plan for medical, dental and life insurance benefits) can be recorded using a 10% corridor method (same as current CGAAP) or be immediately recognized with gains and losses directly in other comprehensive income (OCI) in equity, thereby by-passing the expense. DICO will elect to continue to recognize future actuarial gains and losses using a 10% corridor approach charged to pension cost. Any amounts that fall outside of the 10% range will be amortized over the average expected remaining service life of the group plan.	**Opening balance sheet:** An increase in accrued benefit liabilities and a decrease in DIRF. **Subsequent to transition:** DICO will continue to apply the 10% corridor method where gains and losses are recognized systematically over time in profit or loss. No significant change in either balance sheet or income statement. This policy choice will provide less volatility to equity (OCI).
	Under IFRS, short-term benefits, such as vested accumulated unused vacation entitlements, are measured as an additional liability at the end of the reporting period.	**Opening balance sheet:** An increase in liabilities and decrease in DIRF. **Subsequent to transition:** An increase of liability for benefits which will include the amounts of unused vacation entitlements (limited to Corporate policy allowed) at the end of each reporting period.

Deposit Insurance	After detailed review and consultation with professional advisors and other deposit insurers, DICO will apply IAS 37- Provisions, Contingent Liabilities and Contingent Assets as the appropriate standard for the recognition and measurement of potential deposit insurance obligations granted under the *Credit Union and Caisses Populaires Act*, 1994.	**Opening balance sheet:** No impact is expected. **Subsequent to transition:** The impact on the DIRF will depend on the difference in assessing provisions under IFRS.
Provisions and contingent liabilities	IFRS requires a provision to be recognized when it is probable (more likely than not) that an outflow of resources will be required to settle the obligation, while a higher threshold is used under CGAAP.	**Opening balance sheet and subsequent to transition:** The provisions charged to DIRF will likely occur earlier as the IFRS threshold is greater than 50% vs the CGAAP of 70%.
Consolidation	CGAAP requires DICO to consolidate institutions in liquidation as they are qualified as variable interest entities (VIEs) and since DICO is the primary beneficiary of the VIE's earnings or losses. There is no concept of VIE under IFRS. The control model under IFRS is defined as the power to govern the financial and operating policies of an entity so as to obtain ownership benefits from its activities. Management has concluded that ownership benefits do not accrue to DICO as a result of its activities as supervisor, administrator or liquidator of institutions in financial difficulty. Therefore DICO will not consolidate institutions in liquidation as rendered under the old VIE model.	**Opening balance sheet:** De-consolidate institutions in liquidation which will increase the opening balance of the DIRF and lower both total assets and total liabilities. **Subsequent to transition:** The balance sheet and income statement will present a clearer view on DICO's operations after the elimination of VIE consolidation.

The disclosed impacts of the IFRS conversion listed above reflect DICO's most recent assumptions and estimates, including our assessment of the IFR Standards expected to be applicable at time of conversion. As a result of some unforeseen circumstances, the actual impacts of our conversion to IFRS may be different from those presented above.

DICO's Strategic Plan 2011-2013

STRATEGIC GOALS



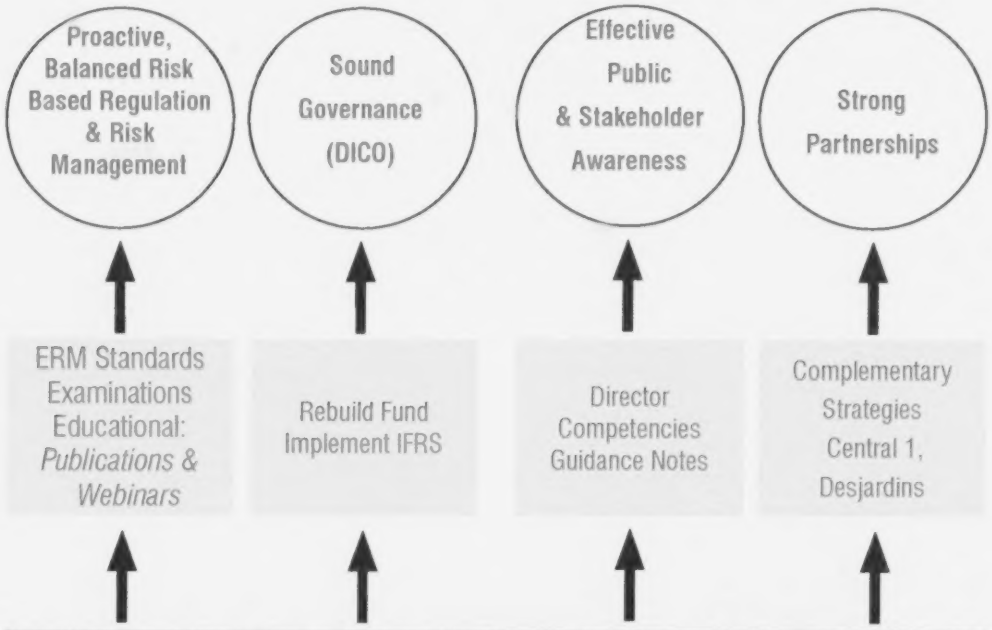
DICO MISSION To Protect Depositors and Contribute to the Sector's Stability

DICO VISION We will contribute to the soundness, stability and success of the Ontario Credit Union/ Caisse Populaire sector by being an effective solvency regulator and deposit insurer

KEY STRATEGIC OBJECTIVES

MAJOR INITIATIVES/ PRIORITIES

ENABLING STRATEGIES



DICO's Risk Management

DICO's risks are managed in the context of our Enterprise Risk Management Framework (ERM) – a well defined set of Board approved risk management policies and practices to ensure that the Board, the Risk Oversight Committee of the Board and management understand and respond to the risks to which we are exposed. The ERM is reviewed in detail annually and is a primary driver in the development of DICO's operational business plan and budget each year.

Overview of DICO's Assessment of Significant Risks		
Description of Risk	**Risk Level**	**Risk Trend**
DEPOSIT INSURANCE RISKS: DICO's risk of loss resulting from:		
Risk Assessment / Monitoring Risk: **The risk that DICO does not promptly or systematically identify insured institutions that pose an unacceptable level of insurance risk resulting in financial loss.**	MODERATE	–
Risk Management / Intervention Risk: **The risk that DICO does not take appropriate action with respect to an unacceptable level of insurance risk posed by an insured institution resulting in financial loss.**	MODERATE	–
Failure / Loss Management Risk: **The risk that DICO does not take appropriate action to manage insured institutions that are under Administration or in Liquidation resulting in increased financial loss.**	MODERATE	↓
Failure of Insurance to cover fraud / losses: **The risk that material fraud in an institution will expose its members and the DIRF to loss.**	HIGH	–
Economic Environment Risk: **The risk to DICO that insured institutions are negatively impacted by regional, provincial and national economic factors.**	MODERATE	–
DICO'S CORPORATE RISKS		
Strategic Risks: **DICO's risk of loss resulting from failure of the overall Regulatory Framework and DICO's strategies to address significant and / or emerging risks including:** • Political Risks • Strategic Direction Risk • Regulatory Framework Risk / The Act / Government Policy Risk • Reputation Risk • Communications Risk	**LOW**	–
Regulatory Risks: **The risk that DICO fails to address non-compliance by insured institutions which leads to harm to depositors, members and shareholders including:** • Prudential Standards Risk • Non-Compliance Risk	**LOW**	–
Financial Risks: **DICO's risk of loss associated with managing its assets and liabilities including:** • Adequacy of the Deposit Insurance Reserve Fund Risk • Liquidity Risk • Investment / Market Risk • Internal Controls Risk	MODERATE	–
Operational Risks: **DICO's risk of loss resulting from inadequate or ineffective internal processes, people and systems, or from external events including:** • Business Continuity Risk • Technology Risk • Human Resources Risk	**LOW / MODERATE**	–
Compliance Risks: **DICO's risk of loss resulting from failure to comply with all applicable legislation and directives including:** • *Credit Unions and Caisses Populaires Act* Risk • Management Board Directives Risk • *Income Tax Act* Risk • Human Resources Legislation Risk • Other legislative Risk	**LOW**	–

Balanced Scorecard Overview 2010 - 2013

▲ Planned progress on schedule and within budget
▼ Slippage in terms of time to completion and/or budget variances
► In progress

ALL FINANCIAL INFORMATION IS SHOWN ON AN UNCONSOLIDATED BASIS

DICO's Mission: ***To protect depositors and contribute to the stability of the Ontario Credit Union and Caisse Populaire sector***

STRATEGIC OBJECTIVES	2010 RESULTS	2011-2013 PLANNED KEY INITIATIVES	KEY PERFORMANCE INDICATORS
PROACTIVE AND BALANCED RISK-BASED REGULATION AND RISK MANAGEMENT DICO must continually stay alert to indicators of risk and the emergence of new risks so that it can respond quickly to manage insurance risk. The Corporation is focused on continuing to build its strength in risk assessment, risk management, loss management and in its regulatory role.	**Risk and Regulatory Compliance Assessment**		
	• High risk /non-compliant institutions identified within 90 days of reporting/ examinations ▲ • ERM initiated for large institutions ▲ • By-laws #5 & #6 submitted for approval ▲	• Implement revised e-filing system • Improved Risk Assessment Profile process • Improved early warning systems (flags) • Expanded In-house examination capacity	• Compliance with regulations and Standards of Sound Business & Financial Practices • Timely Identification of non-compliance and high risk institutions
	Risk Management		
	• All institutions meeting defined criteria in appropriate program ▲ • Improved risk ratings for institutions in programs ▲	• Assign high risk institutions to appropriate programs • Review criteria for Supervision & Administration	• All institutions in appropriate programs based on risk profiles • Improvement of risk profiles for institutions in Supervision
	Failure Resolution		
	• Failure resolution strategies in place ▲ • Public confidence maintained ▲ • Losses minimized ▲	• Appropriate failure resolution strategies employed • Continuation of services for members • Mitigate losses to DIRF	• Institutions in appropriate programs based on defined criteria • Public confidence maintained • Losses minimized
	Depositor and Liquidations Payouts		
	• Timely Depositor payouts ▲ • Maximize recoveries ►	• Timely Depositor pay outs • Timely, accurate completion of liquidations • Maximize collections & recoveries from legal actions	• Depositors paid within 30 days • Maximized recoveries • Public Confidence maintained
	Regulatory Actions		
	• Guidelines published ▲ • Orders issued as needed ▲ • Service standards met ▲	• Implement new By-law #5 including ERM framework • Implement new By-law #6 • New/revised Self-Assessment Workbook, Examination Guide, Process Guides • Publish Guidelines & Guidance Notes • Issue orders as required	• Effective governance • Improved understanding and compliance • Consistent application • Service standards met for Regulatory approvals • Transparent processes

STRATEGIC OBJECTIVES	2010 RESULTS	2011-2013 PLANNED KEY INITIATIVES	KEY PERFORMANCE INDICATORS
SOUND CORPORATE GOVERNANCE To maintain stakeholder and public confidence DICO must demonstrate that it is governed and managed in an efficient and effective way. To achieve this DICO will maintain sound governance; manage its significant risks (ERM) and work to ensure that sufficient funds are available to protect depositors.	**Sound Governance**		
	• Compliance with Act and policies ▲ • Compliance with all laws and Directives ▲ • Net operating expenses $7.2M vs budget of $7.7M ▲ • HR & IT strategies in place ▲ • Ombudsman function in place ▲	• Compliance with Act and policies • Compliance with all laws and Directives and DICO policies • 2011 Net operating expenses projected at $8.4M • HR & IT strategies in place • Ombudsman function in place • Expanded Internal Audit function	• Meeting Corporate Objectives • Compliance with statutes and Directives & Policies • Budget targets met • Internal staff resources strengthened • Effective complaints mechanism
	Effective Enterprise Risk Management (ERM)		
	• ERM updated and expanded ▲	• ERM continually updated and improved • Internal audit review of ERM	• Identification and management of all material risks • Integration of ERM with Business Plan and Budget
	Adequate Deposit Insurance Reserve Fund		
	• DIRF reached $95M ahead of the minimum $85.5M target for the year ▲ • Provincial Line of Credit in place ▲ • Premium recommendation to the Minister ▲	• 2011 year end DIRF projected at $107.7M or 48bp of insured deposits • 2012 year end DIRF projected at $121.2M or 51bp of insured deposits • 2013 year end DIRF projected at $136.4M or 55bp of insured deposits • Review premium structure/ strategy	• Minimum fund targets achieved • Appropriate liquidity to meet insurance/ dissolution needs • Preservation of capital and rate of investment return
EFFECTIVE PUBLIC AND STAKEHOLDER AWARENESS DICO must ensure that the public and other stakeholders have ready access to deposit insurance information and a clear & transparent understanding of DICO's role, standards & actions.	**Comprehensive Web site**		
	• Web site continually updated ▲	• Update Q&As for consumers • Develop deposit insurance consumer video	• Transparency and accessibility of all appropriate information
	Toll-free Information Service		
	• Toll free enquiry line in place and heavily utilized ▲	• Maintain bilingual help line	• Utilization and response times
	Point of Sale Consumer Information		
	• Updated point of sale information available for all institutions ▲	• Revise and distribute as necessary	• Informative Brochures • Decals • Quick Reference Guides
	Communications		
	• Communications plan in place ▲ • Annual Meeting April 29 ▲ • Regular Sector Releases, Sector Outlooks etc. ▲ • Webinars on Role of the Audit Committee and other topics ▲ • Positive survey results ▲	• Continually updated Communication strategy • Annual Meeting (April 27) • Timely Webinars on current topics • Timely Publication of sector information	• Consistent messages from DICO • Effective Annual/ regional meetings • Stakeholder feedback

STRATEGIC OBJECTIVES	2010 RESULTS	2011-2013 PLANNED KEY INITIATIVES	KEY PERFORMANCE INDICATORS
STRONG PARTNERSHIPS To have the most expertise and impact DICO needs to work effectively with the government, sector / stakeholder representatives and other national and international deposit insurers.	**Strategic Alliances**		
	• Memoranda of understanding in place with strategic partners ▲	• Maintain MOUs and effective working relationships	• Partners (Stakeholders and DICO's) satisfaction - feedback
	Stakeholder Relations		
	• Consultations process on premiums, By-laws 5 & 6, ERM etc. ▲ • Advisory Committees ▲	• Advisory Committees • Consultation on all significant issues • Annual Meeting • Regional Meetings if necessary • Qualified external resources to supplement DICO's resources	• Partners' (Stakeholders and DICO) satisfaction - feedback • Awareness of stakeholder issues and support for DICO's initiatives

Management's Responsibility

The Deposit Insurance Corporation of Ontario's management is responsible for the integrity and fair presentation of the financial statements included in the annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The Corporation maintains systems of internal accounting controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that the Corporation's assets and liabilities are adequately accounted for and assets safeguarded.

The consolidated financial statements have been reviewed by the Corporation's Audit and Finance Committee and have been approved by its Board of Directors. In addition, the financial statements have been examined by KPMG LLP, the auditors, whose report follows.

Andrew (Andy) Poprawa, CA, C.Dir.
President & CEO

James Maxwell
Chief Administrative and Financial Officer

Toronto, Canada

March 22, 2011

Independent Auditors' Report

KPMG LLP

To the Board of Directors of Deposit Insurance Corporation of Ontario

We have audited the consolidated financial statements of Deposit Insurance Corporation of Ontario, which are comprised of the consolidated statement of financial position as at December 31, 2010, the consolidated statements of operations and changes in the deposit insurance reserve fund, comprehensive income and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Deposit Insurance Corporation of Ontario as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

March 22, 2011

Consolidated Statement of Financial Position

Year ended December 31, 2010, with comparative figures for 2009 (in thousands of dollars)

	2010	2009
Assets		
Cash (Note 2)	**$ 13,175**	$ 8,986
Investments (Note 3)	**68,390**	85,885
Loans (net of allowance of $42,682 (2009 - $34,477)) (Note 4)	**25,612**	18,231
Premiums receivable	**3,940**	3,714
Interest and other receivables	**1,679**	203
Land and Buildings	**1,249**	-
Deposit insurance advances recoverable	**4,082**	517
Capital assets (net of accumulated amortization of $4,630 ($2009 - $3,171))	**1,954**	1,617
Total Assets	**$120,081**	**$119,153**
Liabilities		
Payables and accruals	**$ 5,063**	$ 4,127
Member shares and deposits of institutions in liquidation (Note 5)	**11,436**	4,176
Deferred premium income	**3,893**	3,776
Accrual for deposit insurance losses (Note 6)	**13,771**	28,773
Total Liabilities	**34,163**	40,852
Equity		
Deposit Insurance Reserve Fund	**85,869**	78,285
Accumulated other comprehensive income	**49**	16
Total Equity	**85,918**	78,301
Total Liabilities and Equity	**$120,081**	**$119,153**

Lease Commitments (Note 7)
Contingencies (Note 13)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_____ Director

_____ Director

Deposit Insurance Corporation of Ontario

Consolidated Statement of Operations and Changes in the Deposit Insurance Reserve Fund

Year ended December 31, 2010, with comparative figures for 2009 (in thousands of dollars)

	2010	2009
Income		
Premium income	**$21,196**	$19,947
Other income	**2,852**	2,039
	24,048	21,986
Operating expenses - DICO:		
Salaries and benefits	**5,111**	4,519
Operating expenses	**2,434**	2,526
Recovery of operating expenses	**(126)**	(104)
	7,419	6,941
Operating and interest expenses - institutions in liquidation	**11,004**	4,453
	18,423	11,394
Excess of income over operating expenses	**5,625**	10,592
Net (Decrease) Provision for insurance losses (Note 6)	**(1,959)**	27,945
Excess (Deficiency) of income over total expenses	**7,584**	(17,353)
Deposit Insurance Reserve Fund, beginning of year	**78,285**	95,638
Deposit Insurance Reserve Fund, end of year	**$85,869**	$78,285

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended December 31, 2010, with comparative figures for 2009 (in thousands of dollars)

	2010	2009
Excess (Deficiency) of income over total expenses	**$7,584**	$(17,353)
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale investments arising during the year	**33**	(22)
Comprehensive income (loss)	**$7,617**	$(17,375)

Statement of Accumulated Other Comprehensive Income

Year ended December 31, 2010, with comparative figures for 2009 *(in thousands of dollars)*

	2010	2009
Accumulated other comprehensive income, beginning of year (Note 3)	**$ 16**	$ 38
Sale of available-for-sale investment from opening balance of accumulated other comprehensive income	**(16)**	(38)
Net unrealized gains on available-for-sale investments arising during the year	**49**	16
Net change during the year	**33**	(22)
Accumulated other comprehensive income, end of year	**$ 49**	$ 16

See accompanying notes to consolidated financial statements.

Deposit Insurance Corporation of Ontario

Consolidated Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009 (in thousands of dollars)

	2010	2009
Cash received from (applied to):		
Operations:		
Excess (Deficiency) of income over total expenses	**$ 7,584**	$(17,353)
Items charged to operations not affecting cash		
Provision for losses (Note 6)	**(1,959)**	27,945
Loss on disposal of loans and other assets	**5,379**	99
Unrealized gains (losses) on available-for-sale investments arising during the year	**33**	(22)
Amortization	**196**	205
Provision for bad debts	**1,324**	(352)
Additional non cash items resulting from new institutions in liquidation:		
- Land and Buildings	**(1,262)**	-
- Capital assets	**(169)**	-
- Member shares and preferred shares	**(6,794)**	-
Net adjustment with new/close out institutions during the year	**-**	(28)
	4,332	10,494
Changes in:		
Loans	**(7,381)**	(12,609)
Premiums receivable	**(226)**	(281)
Interest and other receivables	**(1,476)**	293
Deposit insurance advances recoverable	**(3,565)**	(357)
Payables and accruals	**936**	483
Membership shares and deposits of institutions in liquidation	**7,260**	2,900
Deferred premium income	**117**	311
	(4,335)	(9,260)
Total net deposit insurance payments to depositors (Note 6)	**(13,043)**	(29,761)
	(13,046)	(28,527)
Investing activities:		
Purchase of investments held at year end	**(68,390)**	(85,885)
Proceeds on sale of investments	**85,885**	117,939
Purchase of capital assets	**(374)**	(668)
Proceeds on sale of capital assets	**-**	2
Proceeds on sale of Real Estate in liquidations	**114**	-
	17,235	31,388
Increase in cash position during the year	**4,189**	2,861
Cash position, beginning of year	**8,986**	6,125
Cash position, end of year	**$13,175**	8,986
Supplementary cash flow information:		
Loan guarantee fee paid during the year	**$ -**	$ 2
Interest received during the year	**$ 2,766**	$ 1,677

Cash position is defined as cash and short-term investments less any borrowings.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended December 31, 2010 with comparative figures for 2009

GENERAL

Deposit Insurance Corporation of Ontario ("DICO" or "the Corporation") is an "Operational Enterprise" Agency of the Province of Ontario established without share capital under the provisions of the *Credit Unions and Caisses Populaires Act*, 1994 ("the Act").

The statutory objects of the Corporation under the Act are to:

- provide deposit insurance to depositors of Ontario credit unions and caisses populaires;
- promote and contribute to the stability of the sector;
- provide insurance while minimizing exposure to loss;
- collect and publish statistics; and
- perform the duties specified in the Act and as directed by the Minister.

The Act empowers the Corporation to assess its insured institutions deposit insurance premiums to meet the Corporation's requirements for insurance funding and administrative costs. The premium rates are set out in the regulation to the Act. The Corporation reviews the adequacy of the premium rate annually and advises the government accordingly.

Effective January 1, 2009, the Minister of Finance approved a $250 million line of credit with the Ontario Financing Authority which expires on December 31, 2013. Under the revolving credit facility arrangement, interest cost on any outstanding debt obligation is charged at an annual rate equal to the Province's cost of funds for borrowings with a three month term, determined by the Ontario Financing Authority (OFA) at the time of the borrowing, plus an additional 0.40 percent per annum.

1. Summary of Significant Accounting Policies

The accompanying Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). To facilitate a better understanding of our consolidated financial statements, the Corporation has disclosed its significant accounting policies as summarized below.

(A) Basis of consolidation:

These consolidated financial statements include the assets and liabilities and results of operations of all variable interest entities (VIEs) where the Corporation is the primary beneficiary after elimination of inter-company transactions and balances.

(B) Variable Interest Entities:

VIEs include entities in which the equity investors do not have a controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support by other parties. AcG-15 requires the consolidation of a VIE by its primary beneficiary defined as the party that receives the majority of expected residual returns and/or that absorbs the majority of the entity's expected losses. As liquidator of the estates of credit unions in liquidation, it has been determined that these rules require the Corporation to consolidate credit unions in liquidation if claims by DICO against the estate represent more than 50% of the total liabilities of the credit unions during the year. The assets and liabilities of the credit unions which meet the criteria for consolidation were recorded in the Corporation's books at their respective values as of December 31, 2010 and 2009.

(C) Premium income:

Premiums are based on a Differential Premium Risk Classification System as defined by regulation applied to insured deposits held by insured institutions. Premium income is calculated based on the Annual Institution Return submitted by the insured institution, which is due 75 days after its fiscal year end. Premium income is recognized when earned.

(D) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. The most significant areas of judgement relate to the allowance for credit losses related to credit unions in liquidation which is disclosed in Note 4 and provision for losses which is disclosed in Note 6.

(E) Provision for losses:

The provision for losses includes allowances against deposit insurance advances to insured institutions in liquidation and an accrual for losses for which advances have not been made at the date of the Consolidated Statement of Financial Position.

Funds advanced in respect of deposit insurance and loans to insured institutions are initially recorded at cost. Deposit insurance advances recoverable are presented on the Consolidated Statement of Financial Position net of allowances thereon.

The accrual for deposit insurance losses includes both provisions for specific losses and a general accrual for losses. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation.

The general accrual for losses reflects management's best estimate of losses on insured deposits arising from the inherent risk in insured institutions. The provision is established by assessing the aggregate risk in insured institutions based on current market and economic conditions, the likelihood of losses and the application of historic loss experience. Future economic conditions are not predictable with certainty and actual losses may vary, perhaps substantially, from management's estimates.

(F) Pension benefits:

Pension benefits include a defined contribution pension plan covering all of DICO's regular, non-contractual employees as well as supplemental arrangements, which provide pension benefits in excess of registered pension plan limits. Earnings are charged with the cost of pension benefits earned by employees as service is rendered. Pension expense is determined by a fixed percentage of the employees' income plus the matching of the employees' contribution to a maximum of 4%. The Corporation assumes no actuarial or investment risk.

(G) Future non-pension post-retirement benefits:

Future non-pension post-retirement benefits relate to the Corporation's extended health, dental and life benefits for both active employees for whom a full eligibility date was determined and existing qualified retirees. The Corporation accrues obligations under these plans as the employees render the service necessary to earn the future benefits. The accrued benefits obligation is actuarially determined using the projected benefit method prorated on service. Cumulative gains and losses in excess of the accrued benefit obligation at the beginning of the year are amortized over the expected average remaining service of active members.

(H) Investments:

Investments are classified, based on management's intentions, as available-for-sale. They are measured at fair value with unrealized gains and losses recorded in other comprehensive income until realized or sold. Interest earned is calculated using the effective interest rate.

(I) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Amortization of furniture and equipment is provided by the diminishing-balance method at the rate of 20 per cent per annum. Computer and related equipment and software are amortized over three years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(J) Income Taxes:

The Corporation uses the asset and liability method of accounting for income taxes. Under the asset

and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(K) Transition to International Financial Reporting Standards (IFRS):

AcSB has confirmed January 1, 2011 as the date IFRS will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises. DICO will adopt IFRS as the basis for preparing our December 31, 2011 financial statements, including an opening balance sheet as at January 1, 2010. The Corporation has completed the analysis of the potential impact of the transition to IFRS on its financial statements, disclosures, and broader financial reporting systems and controls. The differences between DICO's accounting policies and IFRS requirements, combined with our decisions on the optional IFRS 1 exemptions from retroactive application of IFRS, will result in measurement and recognition differences when transitioning to IFRS. The net impact of these differences will be recorded in the opening DIRF balance. Detailed accounting assessments included deposit insurance, consolidation of VIEs, provisions for insurance losses, financial instruments, revenue recognition, short and long-term employee benefits, leases, accounting for income tax, property, plant and equipment, impairments of non-financial assets, related party disclosures and financial statement presentation and disclosure. Based on our latest analysis, major areas which will be impacted by the adoption of the IFRS are expected to be in pension and other employee future benefits, loss provisions and consolidation of VIEs.

2. Cash

	December 31, 2010	December 31, 2009
	($ thousands)	*($ thousands)*
Cash	$ 1,867	$1,313
Cash of institutions in liquidation	$11,308	$7,673
Total	$13,175	$8,986

3. Investments

The Corporation's investments are classified as available-for-sale and are measured at fair value with unrealized gains and losses recorded in the Consolidated Statement of Accumulated Other Comprehensive Income until the investment is sold. Investments have terms to maturity of 90 days or greater on the date of purchase. As of December 31, 2010, they have a weighted-average yield of 1.07% (2009: 0.28%). In compliance with the Corporation's investment policy and relevant statutes, all investments are highly liquid fixed rate contracts and are R1 MID or better on the DBRS scale.

	December 31, 2010			December 31, 2009		
	Amount *($ thousands)*	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount *($ thousands)*	Weighted Average Effective Yield	Weighted Average Days to Maturity
Treasury bills - Canada	$47,877	0.99%	90	$61,300	0.17%	91
Bankers' acceptances / Bank deposit notes	$20,513	1.90%	22	$11,197	0.56%	66
Fixed income-Canada Housing Trust 1 CDA MTG BD Ser 12 Fltg	–	–	–	$13,388	0.40%	258
Total	$68,390	1.07%	70	$85,885	0.28%	114

The Corporation has contracted with the OFA to manage its investment portfolio. The composition of DICO's investments reflects the nature of the Corporation's potential insurance obligations and is structured to comply with the requirements under both the Income Tax Act, the *Credit Unions and Caisses Populaires Act*, 1994 and Regulation 237/09.

Fair value hierarchy:

The Corporation uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. All of the Corporation's financial instruments were valued using quoted market prices (Level 1).

4. Loans (net of allowance)

Loans (net of allowance) of $25,612,000 (2009 - $18,231,000) are comprised of loans of the estates of credit unions in liquidation.

The majority of the aggregate allowance of $42,682,000 (2009 - $34,477,000) for impaired loans was established by the management of credit unions now in liquidation based on their own analysis or based on an independent contracted advisor's recommendation prior to DICO's appointment as liquidator. DICO has accepted the allowances as established. A total of 5 new institutions were placed in liquidation during 2010 and one institution was finalized and completed during the year. The general process for determining the loan allowances by an institution's management is through identification and determination of losses related to specific loan portfolios. It inherently requires the use of management's best judgments and estimates. The liquidator uses the proceeds of the realized assets of each estate, supplemented as necessary by advances from DICO, to pay all depositors and creditors of the estate. The balance of realization proceeds are used to firstly repay DICO's advances and thereafter are distributed on a pro-rata basis to the members of the estate.

5. Member Shares and Deposits of institutions in liquidation

Member shares and deposits of institutions in liquidation of $11,436,000 (2009 - $4,176,000) are comprised of $10,309,000 (2009 - $3,515,000) in member shares and preferred shares and $1,127,000 (2009 - $661,000) in deposits. DICO has an obligation to insure the amounts on deposit up to the prescribed amounts. DICO has no obligation to insure member shares but as liquidator has the responsibility to distribute any residual funds to members once the liquidation is complete.

6. Accrual for deposit insurance losses

The provision for losses includes specific provisions for known or likely losses from specific insured institutions not included in their financial statements and a general accrual for losses not identified with specific institutions. That portion of the provision for losses recorded in the year and in previous years which has not yet required payment by the Corporation is shown in liabilities on the Consolidated Statement of Financial Position as "Accrual for deposit insurance losses".

	2010	2009
	($ thousands)	*($ thousands)*
Accrual for deposit insurance losses, beginning of year	$ 28,773	$ 30,589
Increase in accrual for current year's losses	1,550	13,022
Increase (decrease) in accrual for prior year's losses	(3,509)	14,923
Net provision for insurance losses for the year	(1,959)	27,945
Net deposit insurance payments to depositors	(13,043)	(29,761)
Accrual for deposit insurance losses, end of the year	$ 13,771	$ 28,773

Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation. The general accrual for losses included in "Accrual for deposit insurance losses" remained at $5,000,000 (2009 - $5,000,000) and is calculated in accordance with the methodology as described in note 1(E).

7. Lease Commitments

The operating lease for the Corporation's premises was renewed commencing August 6, 2007 and ending August 5, 2017. The terms of the lease waived basic rent for the first twelve months. The aggregate lease obligations under the new lease are allocated over the term of the lease on a straight-line basis. Future minimum rents for the next 7 years are summarized as follows:

Years	Rent per annum
Aug 6, 2010 – Aug 5, 2012	$206,000
Aug 6, 2012 – Aug 5, 2017	$218,000

In addition, the Corporation is required to pay property taxes and common area maintenance costs which are currently approximately $260,000 per annum.

A new lease for additional office space for the Corporation has been signed commencing March 1, 2010 and ending August 5, 2017. Future minimum rents for the next 7 years are $26,000 per annum and the property taxes and other operating costs are currently approximately $27,000 per annum.

Effective February 1, 2011, the above lease will be replaced by a new lease which will end in January 31, 2015. It has an option to extend to August 5, 2017 to coincide with the master lease. Base rent for the expanded office space will be $51,000 per year and the operating costs will be approximately $55,000 per year.

8. Income Taxes

The Corporation is subject to income taxes on its income as defined under the *Income Tax Act*. It has accumulated losses for income tax purposes of $22,328,000. They expire as follows:

Originating Taxation Year	Expiring Taxation Year	Amount *($thousands)*
2004	2014	3,790
2005	2015	2,833
2006	2026	1,102
2007	2027	258
2008	2028	1,846
2009	2029	5,904
2010	2030	6,595
		$22,328

The Corporation has determined that realization of the future income tax assets does not meet the more-likely-than-not criterion for recognition and, therefore, a valuation allowance has been recorded against future income tax assets.

9. Pension Plan

The Corporation operates a defined contribution pension plan for its employees. The pension expense charged to income for 2010 was $398,000 (2009 - $354,000).

10. Future non-pension post-retirement benefits

The Corporation accounts for the current value of future non-pension post-retirement benefits. The accrued benefit liability as at December 31, 2010, as actuarially determined, is $1,618,000 (2009 - $1,523,000). The annual benefit cost, including current service cost, interest and amortization of gains and losses was $137,000 (2009 - $128,000). Actuarial valuation for the Corporation's plan is required every three years. The most recent actuarial valuation was conducted as of December 31, 2008 and the date of the next required valuation is December 31, 2011.

The assumptions used in the actuarial valuation of the future benefits obligations consisted of: interest rate of 5.75% (2009 - 6.75%), rate of compensation increase of 3.5% (2009 - 3.5%) and initial weighted average trend rate in health and dental costs of 6.2% (2009 - 6.1%), grading down to 5% per annum by 2029. The Corporation measures its accrued benefit obligations as at December 31st.

Reconciliation of accrued benefit obligation to accrued benefit liability	2010 *($ thousands)*	2009 *($ thousands)*
Accrued benefit obligation at end of year	$1,989	$1,645
Unamortized net actuarial loss	(371)	(122)
Accrued benefit liability	$1,618	$1,523

Change in accrued benefit obligation	2010 *($ thousands)*	2009 *($ thousands)*
Accrued benefit obligation, beginning of the year	$1,645	$1,513
Current service cost	26	25
Interest cost	111	102
Actuarial loss (gain)	249	47
Benefit payments	(42)	(42)
Accrued benefit obligation, end of year	$1,989	$1,645

Effective 2009 the Corporation implemented a human resources retention plan for key management personnel for the purpose of ensuring effective transition and succession planning. Total accrued retention benefits were $434,000 at December 31, 2010 (2009 - $209,000).

11. Directors' expense

During the year the directors received an aggregate remuneration of $137,000 (2009 - 126,000). Total directors' expenses were $61,000 (2009 - $61,000). The remuneration for the Chair is a minimum of $2,000 per month which includes a per diem rate of $500. The per diem rate for all other Board members is $400 (2009 - $350) plus an annual retainer of $3,500.

12. Compensation

The following information about remuneration paid to DICO employees is provided based on the same criteria under which credit unions disclose the remuneration of officers and employees under the *Credit Unions and Caisses Populaires Act*, 1994.

Employee	Position held	Compensation	Taxable Benefits
Brydges, Barry	Vice President, Insurance & Risk Management	$ 179,912	$ 9,201
Dale, Richard	Director, Regulatory Affairs	$141,615	$15,525
Foster, C William D.	Vice President, Asset Management & Recoveries	$181,819	$11,286
Maxwell, James	Chief Administrative & Financial Officer	$151,595	$16,363
Poprawa, Andrew	President and CEO	$233,046	$ 8,793

13. Contingencies

The Corporation is involved in various legal actions in the normal course of business, when acting in the capacity of administrator or liquidator. At the end of 2010 one claim brought against the Corporation remained outstanding. DICO will be seeking a court order to have this claim dismissed on the basis of its statutory immunity. Accordingly, no provisions have been made in these financial statements.

14. Risks arising from financial instruments

Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investment securities. The Corporation minimizes its credit risk by investing in high quality financial instruments and by limiting the amount invested in any one counterparty. All investments in the Deposit Insurance Reserve Fund (DIRF) are limited to those permitted by legislation, by the terms of the line of credit agreement with the OFA and to any limits made by the Corporation's investment policy. The Corporation establishes an allowance for doubtful accounts that represents its estimate of deposit insurance losses in insured institutions. The main components of this allowance are a specific provision that relates to individually significant exposures, and a general provision established in respect of losses that have been incurred but not yet identified. The general provision is determined based on historical data of payment statistics for similar financial assets.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations to depositors as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations, if any; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Corporation maintains a line of credit approved by the Minister of Finance: $250 million that can be drawn down to provide liquidity to DICO

as deposit insurer of insured institutions in the Province of Ontario. The terms of the line of credit require DICO to liquidate its DIRF investments before it can borrow above $20 million. The facility is effective from January 01, 2009 to December 31, 2013. Interest would be payable at an annual rate equal to the Province's cost of funds for borrowings for a three month term, plus an additional 0.40 percent, as determined by the OFA at the commencement of each three month period.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect income or the value of the holdings of financial instruments. The Corporation does not have any dealings with foreign currency. DICO's primary investment objective is to preserve capital and provide necessary liquidity to pay claims and ongoing operating expenses.

Fair value sensitivity analysis for fixed rate instruments

The Corporation accounts for its fixed rate financial assets as available-for-sale. Therefore a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments. A change of 100 basis points in interest rates would have increased or decreased equity by $574,000 (2009: $620,000).

Capital management

The Board's policy is to enhance the financial soundness of the credit union and caisse populaire sector. As of December 31, 2010, the Corporation had a deposit insurance reserve fund (the "fund") of $86 million which represented 40 basis points (on a consolidated basis with the VIEs) of the sector's insured deposits. DICO's target range for the reserve fund (on an unconsolidated basis) is between 56 and 68 basis points of total insured deposits. The Corporation is committed to building the fund to the target range by recovering on past insurance losses and, if necessary, making recommendations to the government to increase deposit insurance premiums.

15. Fair Value Disclosure

The fair value of financial assets and liabilities which include cash and short-term investments, loans, premiums receivable, interest and other receivables, payables and accruals, member shares and deposits approximate their carrying amounts. The fair value of accrual for deposit insurance losses has not been determined because it is not practicable to determine fair value with sufficient reliability.

16. Comparative figures

Certain comparative figures for 2009 have been reclassified to conform with the financial statement presentation adopted for 2010.

Deposit Insurance Corporation of Ontario's Insured Institutions

at December 31, 2010

Credit Unions (134)

3M Employees' (London) Credit Union Limited
Adjala Credit Union Limited
Airline Financial Credit Union Limited
All Trans Financial Services Credit Union Limited
Alterna Savings and Credit Union Limited
Anishinabek Nation Credit Union Inc.
APPLE Community Credit Union Limited
Arnstein Community Credit Union Limited
Auto Workers Community Credit Union Limited
Bay Credit Union Limited
Bayshore Credit Union Ltd.
Boomerang Credit Union Limited
Buduchnist Credit Union Limited
C.N. (London) Credit Union Limited
C.N.R. Employees (Lakehead Terminal) Credit Union Limited
Canadian Transportation Employees' Credit Union Ltd.
Cataract Savings & Credit Union Limited
CCB Employees' Credit Union Limited
City Savings & Credit Union Limited
Communication Technologies Credit Union Limited
Community First Credit Union Limited
Community Saving & Credit Union Limited
Copperfin Credit Union Limited
Creative Arts Savings & Credit Union Limited
Desjardins Credit Union Inc.
DUCA Financial Services Credit Union Ltd.
Dundalk District Credit Union Limited
Dunnville and District Credit Union Limited
Durham Educational Employees' Credit Union Limited
Education Credit Union Limited
Equity Credit Union Inc.
Espanola & District Credit Union Limited
Estonian (Toronto) Credit Union Limited
ETCU Financial Credit Union Limited
Federal Employees (Kingston) Credit Union Limited
Finnish Credit Union Limited
FirstOntario Credit Union Limited
Food Family Credit Union Limited
Fort Erie Community Credit Union Limited
Fort York Community Credit Union Limited
Frontline Financial Credit Union Limited
G.S.W. (Fergus) Credit Union Limited
Ganaraska Credit Union Ltd.
Goderich Community Credit Union Limited
Golden Horseshoe Credit Union Limited
Grey Bruce Health Services Credit Union Limited
Hald - Nor Community Credit Union Limited
Hamilton Municipal Employees' Credit Union Limited
Hamilton Teachers' Credit Union Limited
Health Care Credit Union Limited
Heritage Savings & Credit Union Inc.
Hir-Walk Employees' (Windsor) Credit Union Limited
Holy Angel's & St. Anne's Parish (St. Thomas) Credit Union Limited
Italian Canadian Savings & Credit Union Limited
Kawartha Credit Union Limited
Kellogg Employees Credit Union Limited
Kingston Community Credit Union Limited
Korean (Toronto) Credit Union Limited
Korean Catholic Church Credit Union Limited
Krek Slovenian Credit Union Ltd.
L.I.U.N.A. Local 183 Credit Union Limited
Lambton Financial Credit Union Limited
Lasco Employees' (Whitby) Credit Union Limited
Latvian Credit Union Limited
Libro Credit Union Limited
London Fire Fighters' Credit Union Limited
Margosa Credit Union Limited
McMaster Savings and Credit Union Limited
Media Group Financial Credit Union Limited
Member Savings Credit Union Limited
MemberOne Credit Union Limited
Mennonite Savings and Credit Union (Ontario) Limited
Meridian Credit Union Limited
Miracle Credit Union Ltd.
Momentum Credit Union Limited
Motor City Community Credit Union Limited
Municipal Employees (Chatham) Credit Union Limited
Northern Credit Union Limited
Northern Lights Credit Union Limited
Northridge Savings & Credit Union Limited
ONR Employees' (North Bay) Credit Union Limited
Ontario Civil Service Credit Union Limited
Ontario Educational Credit Union Limited
Ontario Provincial Police Association Credit Union Limited
Oshawa Community Credit Union Limited
Ottawa Police Credit Union Limited
Ottawa Women's Credit Union Limited
Pace Savings & Credit Union Limited
Parama Lithuanian Credit Union Limited

Pedeco (Brockville) Credit Union Limited
Peek Frean Employees' (Toronto) Credit Union Limited
PenFinancial Credit Union Limited
Peoples Credit Union Limited
Peterborough Community Credit Union Limited
Prosperity One Credit Union Limited
Provincial Alliance Credit Union Limited
QuintEssential Credit Union Limited
R.B.W. Employees' (Owen Sound) Credit Union Limited
Resurrection Credit Union Limited
Rochdale Credit Union Limited
Saugeen Community Credit Union Limited
Scarborough Hospitals Employees' Credit Union Limited
Sheridan Park Credit Union Limited
Slovenia Parishes (Toronto) Credit Union Limited
Smiths Falls Community Credit Union Limited
Southlake Regional Health Centre Employees' Credit Union Limited
Southwest Regional Credit Union Ltd.
St. Stanislaus-St. Casimir's Polish Parishes Credit Union Limited
Starnews Credit Union Limited
State Farm (Toronto) Credit Union Limited
Sudbury Credit Union Limited
Superior Credit Union Limited
Sydenham Community Credit Union Limited
Taiwanese - Canadian Toronto Credit Union Limited
Talka Lithuanian Credit Union Limited
Thamesville Community Credit Union Limited
The Energy Credit Union Limited
The Fire Department Employees Credit Union Limited
The Police Credit Union Limited
Thorold Community Credit Union Limited
Toronto Catholic School Board Employees Credit Union Limited
Toronto Municipal Employees' Credit Union Limited
Ukrainian Credit Union Limited
Unigasco Community Credit Union Limited
United Communities Credit Union Limited
United Employees Credit Union Limited
United Ukrainian Credit Union Limited
Unity Savings and Credit Union Limited
Utilities Employees' (Windsor) Credit Union Limited
Victory Community Credit Union Limited
Virtual One Credit Union Limited
Windsor Family Credit Union Limited
Your Credit Union Limited
Your Neighbourhood Credit Union Limited

Caisses Populaires (33)

Caisse populaire Azilda Inc.
Caisse populaire Coniston Inc.
Caisse populaire d'Alban Limitée
Caisse populaire d'Alfred Limitée
Caisse populaire de Bonfield Limitée
Caisse populaire de Cochrane Limitée
Caisse populaire de Cornwall Inc.
Caisse populaire de Hawkesbury Limitée
Caisse populaire de Hearst Limitée
Caisse populaire de Kapuskasing Limitée
Caisse populaire de la Vallée
Caisse populaire de Mattawa Limitée
Caisse populaire de Mattice Limitée
Caisse populaire de Noëlville Limitée
Caisse populaire de North Bay Limitée
Caisse populaire de Verner Limitée
Caisse populaire des Voyageurs Incorporée
Caisse populaire d'Orléans Inc.
Caisse populaire Nouvel-Horizon Inc.
Caisse Populaire Pointe-aux-Roches-Tecumseh Inc.
Caisse populaire Rideau d'Ottawa Inc.
Caisse Populaire St. Charles Limitée
Caisse populaire St-Jacques de Hanmer Inc.
Caisse populaire Sturgeon Falls Limitée
Caisse populaire Trillium Inc.
Caisse populaire Val Caron Limitée
Caisse populaire Vermillon
Caisse populaire Vision Inc.
Caisse populaire Welland Limitée
La Caisse populaire de Field Limitée
La Caisse populaire de New Liskeard Limitée
La Caisse populaire de Timmins Limitée
La Caisse populaire d'Earlton Limitée

Leagues

L'Alliance des caisses populaires de l'Ontario Inc.
Fédération des caisses populaires de l'Ontario Inc.(La)